

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

IN RE:

BENNU OIL & GAS, LLC, *et. al.*,¹

DEBTORS.

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CASE NO. 16-35930

JOINTLY ADMINISTERED

**TRUSTEE'S STATUS REPORT REGARDING
SALE OF THE ATWATER ASSETS TO TALOS ERT, LLC AND
DISPUTE WITH BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT
(Relates to Docket No. 239)**

TO: THE HONORABLE DAVID R. JONES, UNITED STATES CHIEF BANKRUPTCY JUDGE, CREDITORS, AND PARTIES IN INTEREST

Janet S. Northrup, the chapter 7 trustee (the “**Trustee**”)² for the above-referenced and jointly administered bankruptcy cases hereby files her *Trustee’s Status Report Regarding the Potential Sale of the Atwater Assets to Talos ERT, LLC and Dispute with the Bureau of Safety and Environment Enforcement* (the “**Status Report**”) and would respectfully submit the following:

1. In the last status conference before the Court on the proposed sale of the Atwater Assets on August 28, 2018 (the “**Status Conference**”), the Trustee and her counsel, along with counsel for Talos ERT, LLC (“**Talos**”), counsel for the Bureau of Safety and Environmental Enforcement (“**BSEE**”) and the Bureau of Ocean and Energy Management (“**BOEM**”), and counsel for certain other parties, advised the Court that by letter dated August 2, 2018 (the “**August 2nd Letter**”), BSEE denied Bennu’s pre-petition request for a suspension of production

¹ The Debtors in these jointly administered chapter 7 cases are Bennu Oil & Gas, LLC (Case No. 16-35930), Bennu Blocker, Inc. (Case No. 16-35931), and Bennu Holdings, LLC (Case No. 16-35932).

² Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Trustee’s Motion seeking approval to sell the Atwater Assets free and clear of all liens, claims, charges and encumbrances and the assumption and assignment of executory contracts and leases (the “**Sale Motion**”)[Docket No 239].

(the “**SOP**”) for that certain deep-water, offshore lease, referenced as “Lease OCS-G 13198, Atwater Valley Block 63” (“**AT 63**”).³ Counsel for the Trustee and Talos further advised the Court that the Trustee and Talos felt the ruling was incorrect and legally challengeable and were evaluating the course of action they were considering to reverse such ruling. Specifically, the Trustee and Talos reserved all rights with respect to BSEE’s denial of the SOP. Counsel for the Trustee and Talos also raised potential actions the potential filing of a declaratory relief claim with the Court and/or the filing of an appeal of BSEE’S denial of the SOP to the Interior Board of Land Appeals (the “**IBLA**”). At the conclusion of the Status Conference, the Court announced that the Sale Motion would remain on the docket to allow the Trustee and Talos to assess their options and pursue one or both of the potential actions in connection with BSEE’S denial of the SOP in order to allow the Estate (and the Trustee) to consummate the sale to Talos.

2. Subsequent to the Status Hearing, counsel for the Trustee, Talos, BSEE, and BOEM (collectively, the “**Parties**”) engaged in discussions to determine whether the actions of the Trustee and Talos to consummate the transaction would enable a consensual resolution of the denial of the SOP without having to initiate one of the contemplated proceedings. Ultimately, the Trustee and Talos determined that they would file an IBLA appeal of BSEE’s denial of the SOP initially, to allow settlement discussions to occur. For this reason, on September 27, 2018, the Trustee and Talos filed their *Joint Notice of Appeal* of the BSEE Decision dated August 2, 2018 denying the SOP. The appeal is currently pending before the IBLA under IBLA-2019-3 (the “**Appeal**”). Upon the filing of the Appeal by the Trustee and Talos, BOEM and BSEE entered into a consensual “stay” of the consequences of the denial of the SOP during the Appeal, agreeing that AT 63 would not be returned for public sale, BSEE would not require

³ The August 2nd Letter was admitted into the record by the Court at the Status Hearing as Trustee’s Exhibit A.

decommissioning of AT 63 as if the lease had terminated, and BSEE would not release any proprietary geophysical and geological data associated with AT 63.

3. Subsequent to the filing of the Appeal, counsel for the Parties continued settlement discussions. In that regard, on October 29, 2018, the Parties filed a *Joint Motion for Suspension of Proceeding* with the IBLA to suspend the appeal for a specified period to allow the Parties to engage in settlement discussions. On November 14, 2018, the IBLA entered an Order suspending consideration of the Appeal, placing the matter on the IBLA's inactive docket, and tolling all filing deadlines including BSEE's obligation to file the administrative record, until February 25, 2019.

4. In that regard, the Parties scheduled a settlement meeting and, on December 3, 2018, the Parties and their counsel participated in such meeting at BSEE's regional offices in New Orleans (the "**December 3rd Meeting**"). A detailed presentation was made by senior management of Talos to BSEE at the December 3rd Meeting, and BSEE commenced consideration of those items discussed and indicated that they would provide the Trustee and Talos with a response after internal discussions among BSEE representatives and counsel.

5. On December 18, 2018, counsel for the Parties convened a follow up telephone conference to discuss the outcome of the December 3rd Meeting and to coordinate additional actions to be taken by the Parties. Counsel for BSEE acknowledged that, as a result of the December 3rd Meeting, the next steps and feedback were to come from BSEE. While the December 3rd Meeting was helpful and productive, the partial government shutdown (the "**Shutdown**") has delayed any response from BSEE. The subsequently scheduled conference call among counsel for the Parties was also cancelled as a result of the Shutdown.

6. While the Trustee remains optimistic that discussions may result in a consensual resolution of the Appeal, the Trustee notes that the suspension of Appeal expires in a little over three weeks, and the issues have been in BSEE's hands for over two months since the December 3rd Meeting. The Trustee will update the Court, Creditors, and Parties in Interest with a further status report when there is new information now that the Shutdown has ceased, at least temporarily.

DATED: January 31, 2019.

Respectfully submitted,

HUGHES WATTERS ASKANASE, L.L.P.

By: /s/ Randall A. Rios

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CHAPTER 7 TRUSTEE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the *Trustee's Status Report Regarding the Potential Sale of the Atwater Assets to Talos ERT, LLC and Dispute with the Bureau of Safety and Environment Enforcement* was served on the parties shown on the attached service list either via electronic means as listed on the court's ECF noticing system or United States first class mail, postage prepaid, on January 31, 2019.

/s/ Randall A. Rios

Randall A. Rios

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